

# Revenue Accounting Paradigm for the Next Decade

Philip Fernandes, Head- Revenue Accounting Practice, Accelya

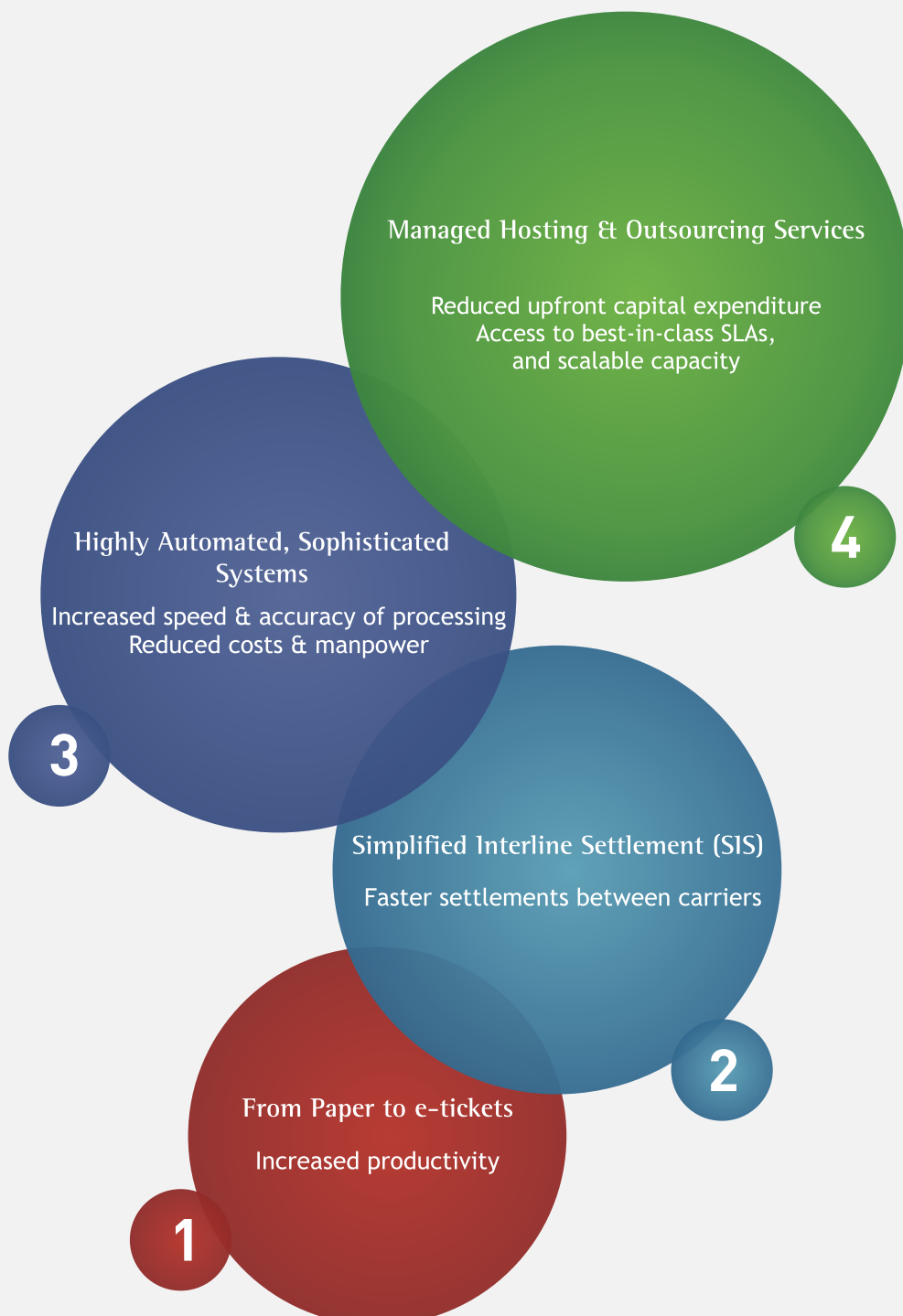


**ACCOUNTING  
ASSURANCE  
ANALYTICS**

## The Last Decade – A Time of Huge Change

During the last decade, the Revenue Accounting function has undergone a fundamental transformation. There has been a ten-fold improvement in productivity and the time frames for processing have dramatically changed. It is no longer a back-office task, whose primary role is processing for accounting purposes. At the same time there are new challenges on the horizon and new expectations and opportunities. It is therefore a good time to reflect on the role of Revenue Accounting in the future.

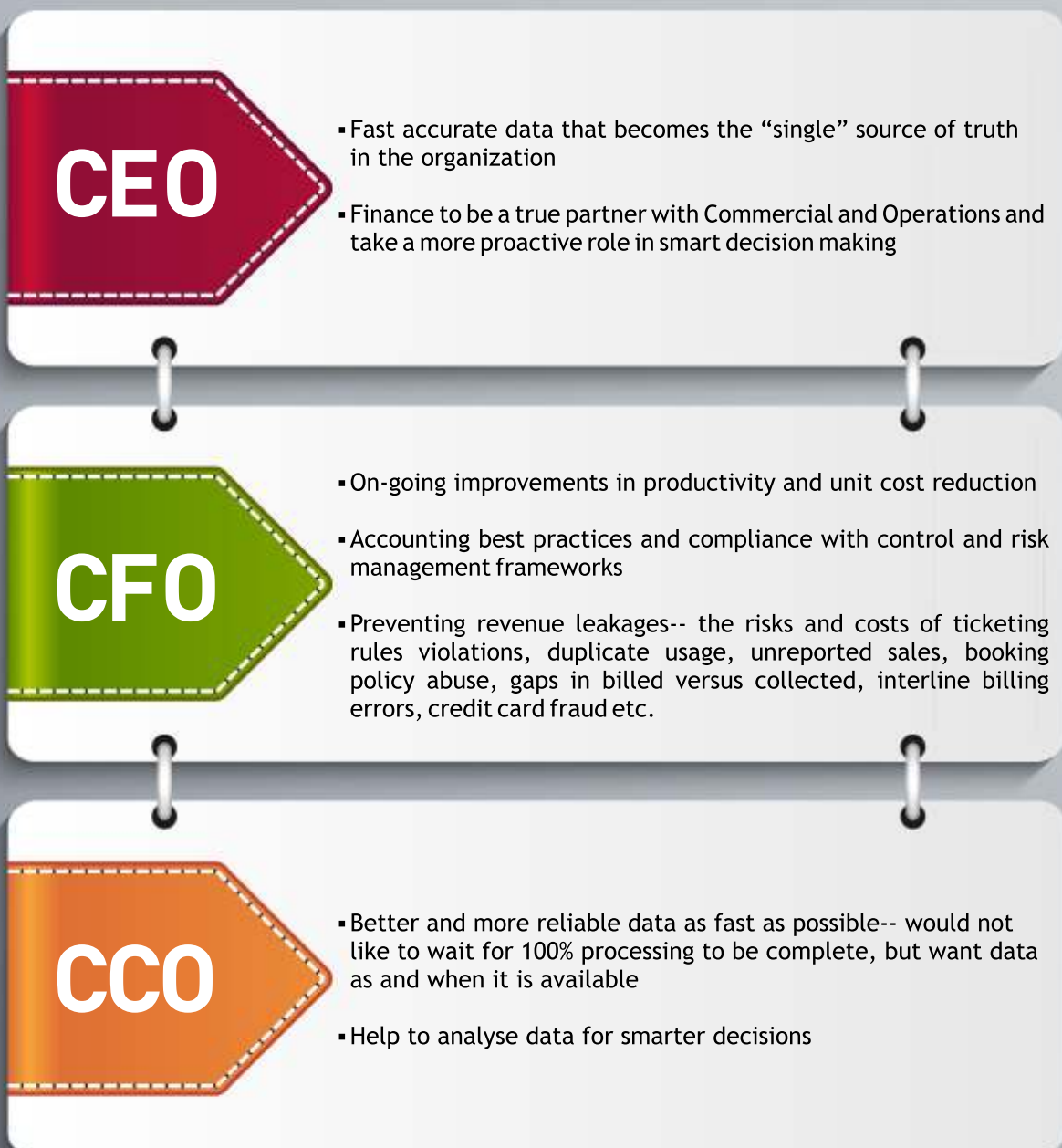
Let us start with a review of the key initiatives and developments that have impacted the Revenue Accounting function in the recent past, particularly in the last decade.



## Revenue Accounting at the crossroads

If the Revenue Accounting function does not evolve, it runs the risk of becoming just another accounting function and losing much of the glory and importance that it holds today. On the other hand, now that processing is becoming easier, there is an opportunity to play a much larger and far more strategic role going forward. It is time for all of us to reinvent the function and find its rightful place under the sun.

Let us look at the expectations of our stakeholders





Traditional Revenue Accounting will have to evolve into RA3: Revenue Accounting, Revenue Assurance and Revenue Analytics.



## Revenue Accounting

With the transformation in the last decade, Revenue Accounting has come a long way. At the same time, there are many unfinished tasks and challenges. Some of them are :

- **Improving Data Quality:** While data is now received in electronic form, the quality of data has not changed very much. 2-5% of the ticket data fails validations and results in error queues. The root causes of these errors lie in upstream Passenger Service Systems (PSS) and processes related to ticketing and departure control. To achieve greater cost savings and accuracy, Revenue Accountants must work with their colleagues in sales distribution and passenger services to improve quality of data.
- **Real-time Data Exchange Standards:** Today all data is received by revenue accounting as end of day (EOD) files. This delays processing by Revenue Accounting as well as leads to significant efforts in reconciliation and controls. It is high time that the industry sets standards for exchange of data in real-time from ticketing, departure control and other systems. Standards would also ensure that airlines do not become hostages of GDS vendors in their choice of revenue accounting systems.
- **Break-down of Silos:** Revenue Accounting needs to break down silos of revenue - passenger, cargo, ancillary, miscellaneous, interline - and look at revenues as a whole. This will allow a view of end-to-end revenues and provide more strategic insights to stakeholders in terms of flight profitability, revenue management, network planning etc.
- **Accounting Standards, Controls and Risk Management Frameworks:** Overall accounting and governance standards have improved all over the world, and the airline industry is no exception. There is far greater need for rigor and frameworks for accounting controls and risk management to meet the needs of internal and external auditors and Board of Directors. At the same time, there will be big changes to the entire Revenue Accounting process driven by new business models around the corner.

- **Introduction of the New Distribution Capability (NDC):** NDC will change the way airlines sell their products. The changes are very significant, particularly when combined with concept of Customer Order Transaction. Revenue accounting processes and systems will have to keep up the pace with it. NDC will get us to simpler world in a few years. But, for now, it's going to make the job of Revenue Accountants far more complex. They will have to concurrently deal with NDC as well as the current processes and accommodate a spike in ancillary revenues that NDC promises to bring.
- **Newer Forms of Payment:** Nearly 30% of payments are already electronic and this is bound to increase substantially going forward, opening up airlines to new risks and threats of fraud. Some airlines have begun to accept Bitcoin as a mode of payment. Imagine the collection and reconciliation complexity that it will bring!

Revenue Accountants will have to manage these complexities without compromising on speed, agility or accuracy. Business models in the industry are changing rapidly and Revenue Accounting has to be agile enough to adapt to these changes and turn them into opportunities.

## Revenue Assurance

Prevention of revenue leakage has always been a very key responsibility of revenue accountants. However, the primary focus has been on items like unreported sales, duplicate usage, inward billing review and sales audit. While these will continue to be important, there are many other challenges facing airlines - payment cards reconciliation and chargebacks, booking policy abuse, ancillary revenue leakages etc. Maybe it is also time to have a larger perspective of the revenue protection function.

We should redefine role of Revenue Assurance to cover the entire lifecycle from booking to collection for all revenue sources- fares, ancillaries, cargo and miscellaneous revenue. We should look beyond leakage to yield protection to improve the quality of revenue. The low or (negative) yield scenarios, flight interrupt situations or excessive incentives should be analysed to fine tune policies and agreements to improve net revenue. The Revenue Accounting department needs to become a true partner with commercial teams to establish value of Revenue Assurance as an independent activity.

We believe that traditional BSP/ARC sales audit saves the industry in excess of 0.5% of sales. Revenue Assurance as overarching goal could have a three-four fold impact ... and all of this would be to the bottom line!

## Revenue Analytics

Till as recently as five years back, most airlines Commercial Departments did not look upon Revenue Accounting for their data requirements because Revenue Accounting could produce the results on a monthly basis and that too much after the month was over. The Commercial Departments would use raw sales data with estimations for revenue for their data analysis and projections. As a result, there were considerable gaps between the numbers from finance and commercial and significant bandwidth went into reconciling the two figures.

Since then, most airlines have moved to using revenue accounting data as the “single” source of truth and supply the Commercial departments with daily data feeds. However, in most cases, the revenue department is a “supplier” of data and not playing a role in the analysis and usage of data.

Another point to note is that sophisticated analytical models have been used in revenue management and network planning. However, the opportunity for data analytics is not limited to only these departments - other areas of airlines - sales performance, channel management, promotions, interline alliances, booking policies - can all benefit from analytical models and tools. Thus there are many areas of incremental revenue improvement, which collectively can have a very significant impact on bottom lines. In this analysis and review, the Revenue Accounting function can play a very important role due to their understanding of both data and the underlying end-to-end process.

For an airline that we are working with, we identified revenue improvement opportunities worth \$50 million within 6 months from areas other than revenue management!

In summary, it is time for Revenue Accounting to take on the challenge of Revenue Analytics. We foresee a paradigm, where every airline will have a Revenue Analytics cell that will work with the commercial, corporate planning and finance departments to mine the very rich data set that Revenue Accounting produces, combining this with other enterprise and external data to provide a huge value add and strategic insights to the airline.

### In Summary

The next decade promises to be an exciting time for the airline industry. Revenue accounting has its role cut out with RA3

- **ACCOUNTING:** Go beyond silos to look at revenues holistically
- **ASSURANCE:** Partner with commercial and other internal stakeholders to protect revenue and yields
- **ANALYTICS:** Evolve an analytics mind-set and become a consumer of data and a supplier of business intelligence

## About Author



### **Philip Fernandes**

#### **Head- Revenue Accounting Practice, Accelya**

Philip is responsible for Accelya's Passenger Practice which is built on two successful platforms REVERA® - the internationally acclaimed revenue accounting solution and APEX® - Accelya's proration engine chosen by IATA for Neutral Fare Prorate. His responsibilities include envisioning the future of Passenger Revenue Accounting and translating the same as product roadmaps for individual products.

Philip has over 20 years of experience in software development, project management and product management in varied technology platforms.

### About Accelya

Accelya is a leading provider of financial and business intelligence solutions to the Airline and Travel industry. Accelya helps airline and travel companies manage their financial processes and gain insights into their business performance. Accelya's expertise spans across all critical airline financial processes - BSP Processing, Revenue Accounting, Audit & Revenue Recovery, Card Management, Miscellaneous Billing, Cost Management and Business Intelligence. Accelya partners with airlines right from the time a ticket or an air waybill is issued, all the way through its entire financial life cycle, until the data is converted into actionable decision support.

With over 200 airline customers, our operations are spread across 9 countries and we employ over 2000 professionals worldwide.

### Contact

For more information about Accelya, contact [info@accelya.com](mailto:info@accelya.com)

Subscribe to Accelya Knowledge Center. Complementary access.



Scan. Visit

Follow us:



© Copyright 2015 Accelya Holding World S.L. and its subsidiaries (hereinafter jointly referred as Accelya Group). All rights reserved. Contents in this document are confidential and proprietary to Accelya Group. No part of this document should be reproduced, published, transmitted or distributed in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, nor should be disclosed to third parties without prior written approval from Accelya Group.